

VZCZCXRO4995
RR RUEHGR
DE RUEHG #0459/01 2192112
ZNR UUUUU ZZH
R 062112Z AUG 08
FM AMEMBASSY GEORGETOWN
TO RUEHC/SECSTATE WASHDC 6628
RUCNCOM/EC CARICOM COLLECTIVE
RUEHRC/USDA FAS WASHDC
RUCPDOC/USDOC WASHDC//ITA//
RUEHBJ/AMEMBASSY BEIJING 0336

UNCLAS SECTION 01 OF 02 GEORGETOWN 000459

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [BTIO](#) [EAGR](#) [EAID](#) [ECON](#) [EIND](#) [EINV](#) [SENV](#) [ETRD](#)

SUBJECT: GUYANA AND FORESTRY SECTOR AT LOGGERHEADS; BOURGEONING INDUSTRY FACES DOWNTURN

¶1. (U) Summary: Guyana's forest-products sector, which with USAID support grew 56 percent from 2004 to 2006, will likely decline for the second consecutive year. In general, the private sector has worked to develop the forestry industry in a sustainable way, and large international wood companies have signaled readiness to invest even more. The government regulatory body, the Guyana Forest Commission (GFC), recently expanded its mission in a way that puts the profitability of the industry--and sustainable management of Guyana's vast forest resources--at risk. End summary.

Setbacks in a Successful USAID Program

¶2. (U) Since 2004, USAID, through the Guyana Trade and Investment Support (GTIS) program, has provided some US\$1.5 million to encourage industry growth by helping local timber producers market their products and coordinate with forest management NGOs and international timber companies. In 2006, USAID estimated that every dollar spent on this program led directly to US\$250 in Guyanese exports. However, after growth of 56 percent from 2004 to 2006, Guyana timber industry declined by 21 percent in 2007 and will likely decline further this year.

¶3. (U) Both the regulatory Guyana Forest Commission (GFC) and the private sector want to develop the timber industry in a sustainable manner. However, local and international firms have expressed concern that the GFC's needed crackdown on logging violations has been overly harsh. The GFC does not have the staff and the expertise for effective regulation, and new proposed regulations risk making sustainable timber harvesting unprofitable. The GFC believes it is capable of formulating and enforcing regulation policies that facilitate export growth while ensuring sustainable timber harvesting. It argues that companies knew for months they were out of compliance with GFC regulations prior to the levy of heavy fines.

¶4. (SBU) In addition to regulating the industry and awarding concessions, the GFC believes it is the organization best suited to certify that timber was harvested consistent with international best practices. USAID and the private sector view this as a serious conflict of interest. Industry standards require that an independent body certify tropical timber before it is sold on the world market. Having the GFC control the concessions, enforce regulations, and certify the timber makes the government agency susceptible to bribery and corruption, putting long-term sustainable forest management at risk.

Private Sector Eager for a Solution

¶5. (U) With proper forest management, industry insiders estimate Guyana can export up to US\$300 million in wood products annually, an amount greater than one-third of Guyana's 2007 GDP. Major U.S. and European wood companies have indicated they are committed to

remaining in Guyana and increasing their investment. DLH, a Danish company with large U.S. operations, is currently looking for a suitable location to invest up to US\$4 million in a state-of-the-art sawmill and kiln that would partner with local firms to meet large orders. However, they believe industry growth will stagnate if regulations and concession are not determined in a fair and transparent manner.

16. (SBU) European and American companies want to move quickly to improve the regulatory environment. They claim that some Chinese timber companies bribe low-level officials for favorable concessions and practice unsustainable timber harvesting that risks harming Guyana's forest assets. If a fair regulatory and concession policy is not in place, Western companies fear that Chinese practices will become entrenched and more widespread, ultimately increasing the cost of doing business in Guyana.

17. (SBU) Due to potential political ramifications and a desire to establish a respected regulatory environment, international companies prefer to work with the GFC to address their concerns rather than more senior GoG officials, despite indications that the Minister of Agriculture, who oversees the GFC and has presidential aspirations, might accommodate them. Instead, the industry, in conjunction with GTIS and other aid agencies, is trying to persuade the GFC to leave timber certification to an independent agency and change some of its regulations to reflect better its capabilities and international best practices.

Comment

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18. (SBU) The government and private sector will eventually find a compromise on regulation because both parties ultimately want growth in the industry. The question is whether an agreement will come this year, or if the sector will shrink further first. A lack of understanding about the economics of the world timber industry hampers decision-making at the GFC, and perceived independent assessments of the industry will be critical in solidifying a credible and transparent regulatory environment. Local producers will need to continue partnering with international timber companies to gain a foothold in the world market. Successful development of the forest sector would be a large step towards raising income levels and reducing poverty in Guyana. End comment.

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